Increasing the Marketing Strength of Farmers

by
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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

The material used here was included in a speech presented by J. Kenneth Samuels, Director, Marketing Division, Farmer Cooperative Service, U. S. Department of Agriculture, at Florida Grower and Rancher Marketing Clinic, Lakeland, Fla., June 27-28, 1963.

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Marketing Division

Generations of farmers have been concerned about their lack of bargaining strength. Actually for more than 150 years, they have turned to organized efforts to deal with this persistent problem.

Our forefathers had to contend with local monopolies, with buyers getting together to fix prices, with excessive transportation costs, with wide handling margins, with inadequate information or none at all, with no adequate grade standards, and often with having their own organizations foreclosed from the market. Even the farmers' right to join together to overcome these inequities was disputed.

At one time a small number of companies that owned most of the elevators throughout large sections of the Grain

Belt were able to establish buying prices different from what they would have been under normal competition. So farmers organized local cooperative elevators. And this development reduced the spread in grain prices and gave farmers a larger share of the price.

While that was long ago and farmers have been able to overcome many such problems, there is now a rising concern over the marketing or bargaining strength of agriculture. The overriding reason is the continued disparity between the income of farmers and nonfarmers. For example, in 1962 the average income of farm population was $1,436, compared with $2,445 for the nonfarm population. Comparable figures for 1952 were $1,024 and $1,854.

Production Changes

Other reasons are also growing out of changes in the production and marketing of food and fiber. Let us examine a few of them.

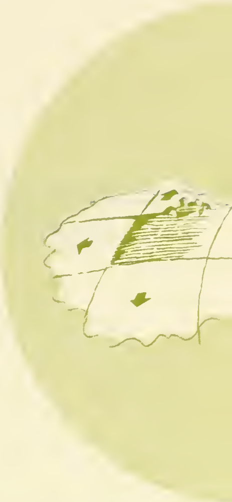
Farm Units Becoming Larger

On the production side, farm units are becoming larger. This might seem to give farmers more bargaining strength, both in selling and in buying supplies.

But even if the number of farms is greatly reduced, as the trend indicates,

the production side will, of course, still have many more sellers than buyers. Actually the range could widen, for the number of buyers may be reduced proportionally more.

This increase in farm size may mean a wider range in the volume to be sold by the smallest compared to the largest producer. Organizations serving farmers -- especially cooperatives -- may find it necessary to serve both types if they are to retain or acquire a dominant role in a production area.



To ignore this problem will mean a further fragmentation of selling, with the products of the large farmer taking a different route to market from those of the smaller or even medium-size farmer.

In spite of these problems, however, many believe that an increase in size of farms will enhance the market position of farmers, for such farmers will be better businessmen, they will have a larger economic stake in agriculture, and they will be better educated.

Thus, the farmers of the future will be more inclined to make their decision on whether or not to have a cooperative and how it shall be run more on the basis of cold, hard facts rather than on emotion or on the social aspects of an organization.

This future farmer probably won't care particularly if a cooperative failed in his community 30 years ago or if his father never joined a cooperative because he considered himself a rugged individualist.

Production Areas Shifting

We also see shifts in production areas and a continuing trend toward specialized producing areas. This shift to specialization means more efficient production, while at the same time the producer finds himself dependent upon one crop. This makes him more industry-minded and more willing to support and join in organizational efforts.

Trend Toward Integration

Vertical integration and contract farming have great implications for farmers' marketing power. Contracts covering details of production and marketing have come into wider use for negotiating the sale of farm products. Unorganized farmers are often handicapped because the contract may cover details about which they have little knowledge.

Whether we like it or not, we find the farmer in contract production often cast in the role of a producing specialist or even in some cases practically a hired hand.

This can be of value in reducing costs, spreading risks, and bringing income security. However, if the farmer has no

control over the process of integration, he has lost a great deal of his bargaining strength.

If, on the other hand, he and his neighbors own and control the integrated setup, they, in effect, substitute group decisions in which each plays a part, for individual marketing and production decisions. Along with this, each is able to transfer some of his production and price risks to a central organization.

Marketing Changes

Along with production changes have come marketing changes.

Farmers Selling Directly to Retailers

One such change is the increase by farmers in selling directly to large retail buyers. This bypasses many traditional marketing institutions and brings about a redistribution among marketing agencies of functions such as assembly, storage, packaging, and transportation.

And, because of direct marketing, the customary meeting between supply and demand forces in the open market often reflects only a small part of the total volume.

Direct marketing often means more individual transactions between farmers

and firms in the marketing system and involves more personal contact and negotiation. Farmers, however, have more confidence in prices when they are arrived at on the open market.

Growth in Size of Business

The greatest concern to farmers in gaining bargaining strength today, however, is the growing bigness in agricultural marketing and industry.

We see all about us expansion of businesses and concentration of economic power. Processors and retail organizations are growing in size. Workers in agricultural industries are uniting. More and more organized groups are in marketing, thus making the actions of any individual less significant.

Large retail organizations with their characteristic supermarket and mass-merchandising operations dominate retailing, and, to a lesser degree, wholesaling. Such organizations are important in processing and packaging operations of some commodities. Thus, along with the growth in size of firms in the food business has come an interlocking of functions.

Where formerly the wholesaler was a separate entity in the marketing process -- buying, selling, and storing -- now wholesaling is to a considerable degree an integral part of retailing.

Small-scale processors and packers -- and some large ones as well -- sell retailers increasingly on a direct price-specification basis. These retailers have their own policies on pricing, brands, and promotion which may not be in harmony with those of their suppliers.

Product Identification Through Brands

A related issue which affects producer marketing strength is that of product identification through brands. Use of distributor or private labels primarily by chain store groups, both corporate and voluntary, has increased.

Stores with a firm private-label policy will push packer brands only when there is strong consumer acceptance backed by effective advertising and promotion. On the other hand, many good retailers feel they can do better by featuring national brands and not having all the headaches of developing and maintaining a line of products under their own labels.

Packers and processors, both cooperatives and others, without strong brands today are becoming bulk suppliers to retailers. They fill orders on specification of these retailers and thus have little opportunity to build either demand for their own products or the market strength that goes with this demand.

To summarize changes in marketing that affect farmers' marketing strength, let's consider these points:

Changes in Methods of Marketing

We have a decline in the importance of central markets, and of commodity exchanges, public markets, and auctions as pricing mechanisms. We have concentration of volume in the hands of fewer and fewer marketing agencies and an increase in specification buying that stresses direct negotiation between the buyer and the seller.

We have more emphasis on uniformity of product, continuity of supply, and large volume, and a vertical linkage of marketing functions with several control centers -- corporate chains, voluntary retail groups, national brands, feed manufacturers, and farmer cooperatives in some commodities.

And finally, we have a closer tie between production and marketing which, I believe, is the beginning of a market-oriented system of production. Historically we have produced food and fiber and then gone out and found a market, if we could. If some of the present trends persist, we will see this process more and more reversed.

How Farmers Achieve Market Strength

Now that we have examined some of the production and marketing conditions of concern to farmers in obtaining bargaining strength, let us look at several alternative approaches to market strength.

In developing these approaches, we must keep in mind particularly the point that final terms of trade are less and less being given in an open market. Instead, they are negotiated directly between buyer and seller. Thus the relative bargaining strength of the participants is of great importance.

Bargaining strength in marketing comes --

1. From having some control over the supply through ability to restrict production, to divert supplies to different uses, or to withhold supplies from the market.

2. From product differentiation.

3. From having a product with the attributes desired by buyers and consumers.

4. From having as complete, or more complete, information than buyers.

5. From control of one or more marketing functions through some type of integration.

Several alternative lines of action can strengthen the position of farmers, and all of them, of course, are being used.

First, the farmer himself can improve his bargaining position. He can become better informed about the current situation in producing and marketing his crop.

He can work to become larger, and, this has long been the trend. Usually the larger farmer can produce a more uniform and better-quality product and attractively prepare it for market. Thus he is able to build more demand for his product compared to those of his neighbors.

Second, many Government programs give farmers more bargaining power. Price-support programs, production controls, land retirement, market agreements, and direct market purchases are techniques used to strengthen farm prices and raise farm income.

A third approach -- and the one I want to discuss in more detail -- is that of

farmers organizing together into cooperatives to increase their marketing strength. As a general rule, just the act of being organized benefits the farmer for this reduces the number of sellers. Thus the buyer must deal with one or a few large sellers rather than many small ones.

The concept of cooperation implies strength. This does not mean that all cooperatives give their members marketing power. We know that some cooperatives are weak, some fail, and some on the way out actually hold back progress by keeping out of their territory, at least temporarily, organizations that would better serve farmers. Fortunately such situations are much in the minority. By and large, cooperatives are effective tools in gaining market strength, as this publication will show.

Use of Cooperatives

If we accept the proposition that cooperatives are an important aspect -- and, in the view of many, the most important aspect of farmer bargaining strength -- let us look at why farmers organize and patronize co-ops, the importance of co-ops in agriculture, what their limitations and problems are, and what they need to do.

Why Farmers Organize and Patronize Co-ops

First, let us look at the fundamental reasons why farmers organize and patronize cooperatives. This will give some insights into the contribution these cooperatives are making in agricultural marketing.

Farmers set up their own marketing organizations to serve their interest as patrons rather than as owners and for capital investment. Cooperatives carry on various marketing activities to make money for the producer rather than the middleman.

Basically, farmers organize, finance, and patronize cooperatives to gain more profit from their total farm operation. Cooperatives help farmers increase their net incomes in several ways -- by bringing the farmer closer to the consumer, expanding markets and developing new ones, emphasizing quality production, paying according to grade, and practicing systematic or orderly marketing.

Farmer cooperatives have other objectives. They act as pacesetters and strive to overcome some of the imperfections of the economy. They work to increase competition and decrease monopoly.

In addition, farmer cooperatives supply their patrons with goods and services on a more economical basis, introduce improvements in production and distribution,

and strengthen the economic position of their producer members by vertical integration.

Importance of Co-ops in Agriculture

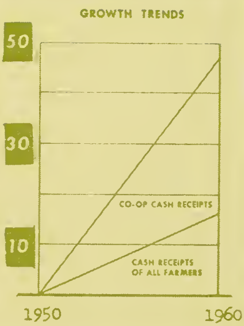
The economic activity generated in our country by cooperative marketing associations is considerable. In the 1961-62 season, 6,422 cooperatives were marketing farmers' products; they did a net volume of business of $10.2 billion. In addition, cooperatives handled $2.6 billion of supplies for farmers.

This is a substantial amount of business. While we have made no specific studies of the proportion of products marketed by cooperatives, we estimate that they handle between 25 and 30 percent of all farm commodities at some stage in the marketing process. This, of course, varies greatly between products and between producing areas.

What about the growth of cooperatives in the marketing field? In 1951-52, cooperatives marketed $7.4 billion of products. Ten years later, in 1961-62, the $10.2 billion total represented an increase of 38 percent.

We might ask how farmer cooperative growth compares with that of other types of firms and with organizations and the economy generally. We do not have any data comparing cooperative growth

with that of other firms in similar activities, but we have made a study of growth trends in cooperative cash receipts compared to cash receipts of all farmers and to gross national product -- 1950 to 1960.



A comparison of annual indexes of net value of products marketed cooperatively and indexes for cash receipts from marketings of all farmers show that the index of cooperative marketings increased 47 percent from 1950 to 1960, while the index of cash receipts of all farmers increased only 16 percent.

There is some disparity in these data because the cooperative volume includes the value added by such services as processing, packaging, and handling. The study concludes, nevertheless, that cooperative marketings, especially since 1954, have increased at a faster rate than agricultural marketings of all farmers.

Cooperatives are not confined to a few localities but are scattered all over the United States. Therefore, their influence in developing an effective marketing system and protecting the interests of their members is multiplied far beyond their mere numbers. In numerous towns and small cities, the cooperative is the principal business. In effect, it exports food and fiber from an area and brings back dollars.

Following are three examples.

The Eugene (Oreg.) Fruit Growers Association had sales of $15,000 in 1908, which grew to almost $12 million in 1962. In writing of their 50th anniversary celebrated in 1958, Ed Pitkin, General Manager, pointed out that the association markets out of this one production area, 18 percent of the Nation's carrots, 13 percent of the Blue Lake beans, and over 10 percent of the Nation's beets.

But, to me, his most significant statement was that for the past 20 years the association had returned to members $1.31 for every dollar of current cash price.

Members of the National Grape Cooperative Association, Westfield, N. Y., by selling their products under the Welch brand, have consistently received higher returns than other Concord grape growers.

In 1938, the Farmers Union Grain Terminal Association, St. Paul, Minn., started with $30,000 member capital. In 1962, it had $42 million in member capital. Over the years, this regional grain cooperative, operating in a very competitive industry, has returned an extra 3 cents a bushel to its members or an estimated $60 million more than they would have received if they had not started their own cooperative business.

Limitations of Co-ops in Increasing Marketing Strength

Now let us look at some of the limitations of cooperatives in providing farmer marketing strength or in expanding their role in this area.

First, what are the limitations that are due to the nature of the cooperative as a business institution? The main point here is that a cooperative is a voluntary association, and farmers are free to join or not to join.

We know of no cooperative that has every farmer in the production area as a member. And in some commodities -- for example, grain, cotton, and livestock -- and in some types of cooperatives -- such as auction markets, grain elevators, commission agencies, and others without grower contracts -- the member may or may not deliver all his products to the cooperative.

This voluntary feature is fundamental to our concept of agricultural cooperation; yet, it can limit the effectiveness of a cooperative. For the bargaining power of an organization, as stated earlier, is at least in part dependent upon having sufficient control of the supply and the ability to withhold or divert part of the supply to other uses or products.

If a cooperative does not have practically all -- or perhaps even all -- the

supply under its control, it will have difficulty in withholding or diverting to a lower return use, because nonmember growers -- not being bound by the cooperative -- can sell when they choose and can refuse to divert any of their products.

Organizations that seem to be particularly vulnerable when they do not control a large part of the supply are the bargaining-type cooperatives. And, in fact, many of them are organized on the basis of getting a certain percent of the crop signed up.

Brand advertising, also, can be very difficult to carry on successfully unless a substantial part of the industry is in one marketing organization.

From an economic standpoint, the fragmentation of cooperatives limits their marketing power more than any other factor. Farmer Cooperative Service records show more than 3 million memberships in marketing cooperatives. Thus, we know there is a large reservoir of grower support for the cooperative concept.

One problem is to evolve cooperatives into the kinds of organizations that make more farmers want to become members and make them eager to bring their products in rather than bypassing the cooperative. This is not to say we don't have

cooperatives like that. But we don't have enough.

I am not arguing for an unlimited number of cooperatives. Too many cooperatives in an area can make for inefficiency, can permit buyers to play one against the other, and can generally weaken the whole market structure. What we need, rather, are strong cooperatives that can attract into their membership a substantial number of the farmers within an area.

What Co-ops Need to Do

Now turn briefly to the question of what cooperatives must do if they are to find a larger place in marketing and give more bargaining strength to their members.

1. Cooperatives must become larger and stronger. -- Today only five cooperatives are listed among the 500 largest U. S. industrial corporations as listed by Fortune (July 1963). But some 100 cooperatives have a volume of business of over $20 million annually. Cooperatives can grow internally by merging or consolidating with other cooperatives and by acquiring other businesses. We see evidence of this growth among cooperatives today, as previously indicated.

2. Cooperatives need to become more diversified. -- By diversification they can spread their risks, can tap wider sources of financing because they will be better credit risks, can employ better management, and can merchandise their products to better advantage.

There is more and more interest in tying together marketing and purchasing organizations. A few years ago a group of poultry cooperatives in New England merged with a large farm supply cooperative -- Eastern States Farmers Exchange, West Springfield, Mass. -- thus offering poultry producers in the area an integrated feed and marketing service.

The Cooperative G. L. F. Exchange, Ithaca, N. Y., has gone into processing by establishing Pro-Fac (Producers' Facilities) to process and market fruits and vegetables in this territory. We believe the time will come when some of our large national commodity marketing cooperatives will join together. Some of them now use joint terminal marketing facilities, and two -- Sun-Maid Raisin Growers of California, Fresno, and Sunsweet Prune Growers, San Jose, Calif. -- carry on a joint promotion program.

Cotton Producers Association, Atlanta, Ga., is an excellent example of a diversified, dynamic operation. Starting as a

cotton marketing cooperative in Georgia in 1933, this association now operates in 10 States. It distributes feed, fertilizer, seed, insecticides, and baby chicks to members and markets cotton, grain, broilers, peanuts, pecans, and livestock.

3. Cooperatives need to establish strict membership requirements, particularly as they relate to product quality. -- To meet the ever-increasing demands of the market for uniform products of good quality, many cooperatives will need to confine their membership to growers who can produce a top-quality product. The cooperative cannot, any more than any other marketing agency, continue to sell successfully a heterogeneous supply offered by farmers.

4. Cooperatives will have to assume more control over production of commodities they market. -- Cooperatives more and more will have to set quality standards for raw products, prescribe production practices, and then see to it that their farmer members live up to such requirements. This gives the farmer advantages both in efficiency and quality.

5. Many cooperatives in the future, as in the past, will have to start small or begin with a limited service to their members. -- There is still a place in the

marketing picture for the small cooperative that can provide an efficient assembly, packing, and grading job in the local community.

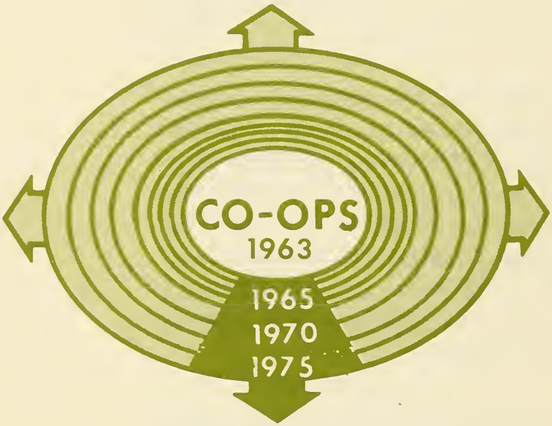
However, more and more it will be necessary for such local associations to join together or tie in with larger cooperatives for selling, merchandising, and purchasing supplies.

We are living in a dynamic period when many changes are at work. Science and technology are opening up more new frontiers. If the farmer is to participate in the economic benefits of our day, he must maintain control over a wider range of operations. To do so as an individual is becoming more difficult and, in most instances, impossible.

Farmers in the hundreds of thousands have proved to their own satisfaction that their cooperatives are the most practical and effective means of maintaining control of their farm businesses and sharing equitably in the income from the total food and fiber industry.

The challenge to cooperatives is to establish themselves in such a way that they can build consumer demand for their products, supply retailer needs in terms

of volume and service, and provide effective bargaining power for producers. To accomplish these objectives, cooperatives must become stronger. To become stronger, cooperatives must grow. I am confident they can meet this challenge.



Other Publications Available

Impact of Dairy Cooperatives on Federal Order Milk Markets, General Report 114. Donald R. Davidson.

Trends in Growth of Farmer Cooperatives, 1950-60, General Report 110. Kelsey B. Gardner and Anne L. Gessner.

Criteria for Evaluating Dairy Cooperatives, Bulletin 14. Stanley F. Krause.

Crushing Cottonseed Cooperatively, Circular 30. Elmer J. Perdue.

Buying Farmers' Stock Peanuts in the Virginia-North Carolina Area, Marketing Research Report 555. Gilbert W. Biggs, Richard A. King, and E. Walton Jones.

Feeder Pig Pooling, Marketing Research Report 566. John T. Haas and Ira M. Stevens.

Why Egg Handling Costs Vary in Selected Cooperatives, Marketing Research Report 552. Harry E. Ratcliffe.

A copy of each of these publications may be obtained upon request while a supply is available from --

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